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SUBJECT: VIETNAM WILL BE HARD PRESSED TO REPEAT TRADE NUMBERS LIKE
2008, U.S. EXPORTS UP BY 47%

REF: A) 08 Hanoi 243 ("08 Vietnam Trade in 2007");
B) Hanoi 205 ("Summer is Sink-Or-Swim Time for Exporters");
C) Hanoi 166 ("First Refinery Ends Reliance on Imports");
D) Hanoi 138 ("GVN Rolls Out Stimulus Package")

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11. (U) SUMMARY: Vietnam's trade was running at full speed when the global economic crisis hit in the second half of 2008, slowing what would have been a remarkable year for Vietnam. The positive trend was so strong that despite lower fourth-quarter numbers, Vietnam's total trade in goods for 2008 was up 31% from the milestone year that was 2007, and trade in services up by 21%. Trade in goods with the United States in 2008 was up 25% from the previous year, and stood at an all-time high of \$15.7 billion by the end of the year. U.S. exports were up even higher by 47%, and growth in agricultural goods was bullish with an increase of 83% from 2007, including over two dozen commodities up in the triple digits. Total trade in services reached \$15 billion, nearly equally divided between imports and exports, according to Government figures. Vietnam's leading exporters are seeing their markets shrink in early 2009, a likely portent of what is in store for them for the rest of the year. This was the seventeenth year of growing Vietnamese trade, and 2009 will probably mark the end of that impressive run. END SUMMARY.

RECORD TRADE VOLUMES THAT WILL BE HARD TO REPEAT

12. (U) Trade volumes for 2008 were the highest in Vietnam's history. Total trade was \$143.4 billion, up 31% from 2007, what was a record year in itself (REF A). Total trade was equivalent to 165% of GDP in 2008, and exports to 72%. Vietnam ran an unprecedented \$18 billion trade deficit too, importing \$80.4 billion in goods and exporting \$62.9 billion, increases of 28% and 30%, respectively.

13. (U) It appears unlikely that any these numbers will be matched in 12009. Imports began to slow down in late 2008 and Vietnam ran a surplus in the first two months of this year, as imports (down 35% YOY) plummeted faster than exports (down 5%). Vietnam's leading exporters are all reporting lower order volumes in early 2009, most in the 30% range but some, like exporters of finished wood products, are down by as much as 70% (REF B).

14. (U) Crude oil was again Vietnam's highest export earner in 2008 (\$10.45 billion, an increase of 23% from 2007), but this was

exceeded in value by imports of refined fuel (\$10.89 billion, an even larger increase of 45% from the previous year). Garment and textile exports followed closely behind (\$9.11 billion, a 17% increase from 2007), followed by footwear (\$4.70 billion, up 19%) and seafood and fisheries (\$4.56 billion, up 20%). The order of the top four exports was unchanged from the previous year but rice (\$2.90 billion) displaced finished wood products from fifth place. The share of these exports of Vietnam's total trade was virtually unchanged from 2007: crude oil with 17% in both years, textiles and garments going from 16% to 14.5% in 2008, footwear from 8% to 7.5%, and seafood from 7.8% to 7.2%.

15. (U) The overwhelming majority (89%) of Vietnam's imports in 2008 were destined for its export industry as inputs or for the construction sector, with machinery and parts leading the pack (\$13.71 billion, a 32% increase from 2007), followed by refined fuel, steel (\$6.57 billion, up 35%), and fabric and textiles (\$4.43 billion, up 11.3%). The order in terms of value was unchanged from 2007. Their share of total imports also changed little: machinery and parts with 17% in both years, refined fuel from 12% to 13.5%, steel with 8%, and fabrics slightly down from 6.5% to 5.5%.

U.S. EXPORTERS STRIKE GOLD, BOOM IN FARM EXPORTS

16. (U) In 2008, U.S. exporters managed to improve upon the record numbers that they posted in 2007 (REF A). U.S. exports to Vietnam grew by 47% from 2007 to 2008 to \$2.79 billion and, once again, the growth in agricultural exports (up 83%) was extraordinary. Exports of meats and poultry went up by 166% to \$263 million, becoming the U.S.'s second highest value export to Vietnam after vehicles (which also went up by 18% to \$258 million). Exports of cotton rose by 119% (to \$192.9 million), becoming our third largest export to Vietnam. Thirty two other agricultural commodities experienced

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growth of three digits or higher. Other areas too experienced significant growth, like telecom equipment, up by 254% to \$136.8 million (our fifth largest export, \$84 million of which was the sale of a Lockheed Martin satellite). Exports of U.S. plastics reached \$150 million (up 5%), our fourth most valuable export in 2008.

TOTAL U.S.-VIETNAM TRADE

17. (U) Total U.S.-Vietnam trade in goods reached \$15.69 billion, an increase of 25% from 2007. Vietnam exports (\$12.9 billion) still dominate trade flows, although the margin has been almost halved from 2006, when it was 8:1 to slightly over 4:1 today. The United States remains Vietnam's most important market, taking in 19% of all of Vietnam's exports (down from 20% in 2007). Vietnam's top export to the United States in 2008 were textiles and garments (\$5.11 billion, a 15% increase from 2007), and in 2008 Vietnam became the second largest exporter of garments to the United States, after China (although China's exports dwarfed those of Vietnam). The top five were rounded up by footwear (\$1.08 billion, up 22% from 2007), finished wood products (\$1.06 billion, up 12%), crude oil (\$1 billion, up 28%), and seafood (\$740 million, up 1.6%).

OUTLOOK FOR U.S. EXPORTS

18. (U) U.S. exports to Vietnam began to dip under 2007 levels in October 2008, a trend than continued until the end of the year. Exports went down by 3.5% from the previous year in October and by 6.8% in November, before plummeting by 36.5% in December. This trend is expected to continue into 2009.

VIETNAM'S TRADE WITH THE REST OF THE WORLD

19. (U) China was again Vietnam's largest trade partner with \$20.2 billion in trade, up 27% from 2007. Most of it was in China's favor, with Vietnam importing \$15.65 billion in Chinese goods while exporting \$4.54 billion of goods to China. Japan was the second largest with \$16.8 billion in trade (up 37%), followed by the

European Union with \$16.3 billion (a 28% increase). The United States fell to fourth place, followed by Singapore (\$12 billion), Taiwan (\$9.76 billion) and South Korea (\$8.85 billion).

¶10. (U) Aside from China, Vietnam ran trade deficits with Taiwan (\$6.96 billion deficit), Singapore (\$6.7 billion), South Korea (\$5.29 billion) and Thailand (\$3.56 billion). Vietnam had trade surpluses with the United States, the EU (\$5.4 billion), Australia (\$2.9 billion) and the Philippines (\$1.43 billion).

TRADE IN SERVICES

¶11. (U) Trade in services also increased in 2008 to \$15 billion, a 21% increase from 2007, according to GVN numbers. Exports of services were \$7.1 billion in 2008, while imports reached \$7.9 billion. As in previous years, the tourism industry dominated trade in services (\$5.3 billion in exports and \$2.1 in imports), accounting for over half of all trade. Shipping exports were \$1 billion, up by 27.7% from 2007, and imports were \$300 million, also an increase of 20%. Telecom imports were up 16% to \$54 million, while exports went down by 27% to \$80 million. Imports of financial services were down 24% to \$230 million and exports down 30% to \$230 million.

TRENDS AHEAD

¶12. (U) The most important variable for Vietnamese trade in 2009 will be the impact of the global economic crisis. The early numbers are not good (REF B), and the impact could be significant. Vietnam has increasingly relied on trade, and exports have kept increasing as a percentage of GDP, from 50% in 2002 to 72% in 2008.

¶13. (U) Many of Vietnam's exports, including its top export, crude oil, will be at the mercy of world commodity prices in 2009. The 23% increase in revenue in 2008 from Vietnam's top export earner,

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crude oil, came solely on the basis of rising oil prices, since production actually declined by 10% last year, the steepest decrease since Vietnam's production began to diminish in 2004. Rice exports, a new entry into Vietnam's top five, increased by 94.8% in value but only by 3.6% in volume. For Vietnam it goes both ways, since its export industries rely so heavily on commodity imports themselves. Its new oil refining capacity should help it offset the high cost of importing fuel (REF C).

¶14. (U) Tourism numbers, much of the engine behind the growth in services trade, are expected to drop significantly in 2009. Visitor numbers were down by 11% in January and February of this year, compared to the same period last year. Visitor numbers were up just 2% in 2008, after a 16% increase in 2007 (Septel).

¶15. (U) To make up for lost export markets, Vietnam is aggressively pursuing new ones. In particular, the footwear and garment industry, and the seafood and fisheries sectors are eyeing the Middle East and Russia. Seafood exports to Russia and eastern Europe were in the triple digits last year (REF B), while the Middle East remains a relatively untapped export destination. Agricultural exporters could also benefit from new markets. The Prime Minister traveled to the Gulf states in mid-March, 2009 pushing this agenda.

¶16. (U) The GVN has also passed measures to help its exporters. As part of the national stimulus package, exporters will have access to reduced-interest loans throughout 2009 (REF D) and no-interest loans to cover severance for laid-off employees. Exporters are not sure whether these measures will help. "No one is going to take out a loan if there are no orders," a representative from the garment industry recently told Econoff. In addition, the GVN has stopped charging exporters for certificates of origin, and has committed itself to ramping up export promotion activities.

¶17. (U) Finally, with the exporters' full support, the GVN is likely to stick to its liberalizing stance in pursuing freer trade with other countries and regions. The electronics and garment exporters

told Econoff that the new free trade agreement with Japan provides one of the few bright spots of 2009, while the newly signed agreement with Australia (bilateral trade \$5.6 billion) and New Zealand (\$310 million) covers over 90% of all traded goods with Vietnam. An official from the furniture exporters association told us that because they did not lobby, their products were not included in the deal with Japan. "We will not let that happen again," he said.

COMMENT: A REMARKABLE RUN, A DECENT CUSHION

¶18. (U) Comment: In little more than a decade Vietnam transformed itself into a significant trading economy and one of the world's fastest-growing markets for U.S. exports. Vietnam's ability to export and purchase foreign goods should be able to stand its ground in relation to other trading partners as the global economic crisis continues. Some export sectors, like seafood and agricultural commodities, may even thrive by eating into the market share from competitors from other countries. Other sectors, like garments, are taking the right approach in focusing on increasing their competitiveness. The GVN seems also to be adopting a strategy to streamline regulations and facilitate business during these difficult economic times. This will present opportunities for the United States to push for further market access and intensify our growing relationship with Vietnam (Septel). End Comment.

NOTE ON NUMBERS

¶19. (U) This cable uses trade U.S. statistics compiled by the Department of Commerce and Census Bureau for most of the section on our bilateral trade with Vietnam. The section on Vietnam's trade with the world uses the newly-released 2008 numbers compiled by General Statistics Office (GSO) of the GVN. One explanation for the difference between figures from Vietnam's GSO and those compiled by the USG is the time lag due to sea transport of goods and the fact that a good that counts as an export by Vietnam is calculated by GSO on a free on board (FOB) basis, while the same good under U.S. statistics is counted as an import whose value includes cost,

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insurance and freight (CIF).

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